



**McDOWELL RACKNER GIBSON PC**  
419 SW 11<sup>th</sup> Ave, Suite 400 | Portland, OR 97205

ALISHA TILL  
Direct (503) 290-3628  
alisha@mrg-law.com

March 29, 2019

**VIA ELECTRONIC FILING**

Attention: Filing Center  
Public Utility Commission of Oregon  
201 High Street SE, Suite 100  
P.O. Box 1088  
Salem, Oregon 97308-1088

**Re: UP 384 - In the Matter of SUNRIVER WATER, LLC and NW NATURAL WATER OF OREGON, Joint Application for Approval of the Sale of Sunriver Water, LLC.**

Attention Filing Center:

Enclosed for filing in the above-referenced docket is an electronic copy of the Stipulating Parties' Joint Testimony in Support of the Stipulation on behalf of NW Natural Water of Oregon, LLC, Sunriver Water, LLC, Public Utility Commission of Oregon Staff, the Oregon Citizens' Utility Board, and The Sunriver Owners Association (Oregon Water-SRW-Staff-CUB-SROA/100).

Please contact this office with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Alisha Till".

Alisha Till  
Paralegal

Attachment

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**CONSOLIDATED DOCKET NOS.  
UP 384 & UP 391**

Joint Testimony in Support of Stipulation

Stipulating Parties: NW Natural Water of Oregon, LLC, Sunriver Water, LLC, Public Utility Commission of Oregon Staff, the Oregon Citizens' Utility Board, and The Sunriver Owners Association

**Joint Testimony of Justin Palfreyman, Thomas O'Shea, Stephanie Yamada,  
William Gehrke, and Hugh Palcic**

March 29, 2019

---

**TABLE OF CONTENTS**

<b>I.</b>	<b>INTRODUCTION AND SUMMARY</b>	<b>1</b>
<b>II.</b>	<b>BACKGROUND</b>	<b>2</b>
<b>III.</b>	<b>CONDITIONS OF SETTLEMENT</b>	<b>5</b>
	A. Stable Costs and Rates	5
	B. Corporate Separation and Accounting Practices	8
	C. Additional Safeguards for Commission Oversight	10
	D. Asset Transfer Protections	12
<b>IV.</b>	<b>REASONABLENESS OF THE STIPULATION</b>	<b>17</b>

**I. INTRODUCTION AND SUMMARY**

1 **Q. Who is sponsoring this testimony?**

2 A. This testimony is sponsored jointly by NW Natural Water of Oregon, LLC ("Oregon Water"  
3 or "Company"), Sunriver Water, LLC ("SRW"), Staff of the Public Utility Commission of  
4 Oregon ("Staff"), the Oregon Citizens' Utility Board ("CUB"), and The Sunriver Owners  
5 Association ("SROA") (collectively, "the Stipulating Parties").

6 **Q. Please provide your names, positions, and qualifications.**

7 A. My name is Justin Palfreyman, and I am employed as the President of Oregon Water. My  
8 qualifications are described in Exhibit Oregon Water/100, Palfreyman/1.

9 My name is Thomas O'Shea, and I am currently employed as the Managing  
10 Director of Sunriver Resort and am Senior Vice President of Lowe Sunriver, Inc., which is  
11 the managing partner of Sunriver Resort Limited Partnership ("SRLP"). My qualifications  
12 are described in Exhibit Sunriver Water, LLC/100, O'Shea/1.

13 My name is Stephanie Yamada, and I am a Senior Utility Analyst employed in the  
14 Telecommunications and Water Division of the Public Utility Commission of Oregon  
15 ("Commission"). My qualifications are provided in Exhibit Staff/101, Yamada/1.

16 My name is William Gehrke, and I am an Economist employed by CUB. My  
17 qualifications are provided in Exhibit CUB/101, Gehrke/1.

18 My name is Hugh Palcic, and I am the General Manager of SROA. My  
19 qualifications are described in Exhibit SROA/100, Palcic/2.

20 **Q. What is the purpose of this Joint Testimony?**

21 A. This Joint Testimony describes and supports the Stipulation filed in Consolidated Docket  
22 Nos. UP 384 and UP 391 ("Consolidated Proceedings") on March 29, 2019 ("Stipulation").

1 The Stipulation is joined by all parties to the proceedings and resolves all issues in these  
2 dockets.

## II. BACKGROUND

3 **Q. Please summarize the background and context of Docket Nos. UP 384 and UP 391.**

4 A. SRW is a privately-owned, rate-regulated water utility located in Sunriver, Oregon, and  
5 currently provides water services to approximately 4,722 customers in the Sunriver area.  
6 On October 12, 2018, Oregon Water and SRW's parent company, SRLP, entered into a  
7 membership interest purchase agreement ("MIPA") under which Oregon Water will  
8 purchase all of SRLP's membership interests in SRW.<sup>1</sup> The MIPA also specifically  
9 provides that certain assets currently held by SRW will not be acquired by Oregon Water,  
10 but instead will be transferred to SRLP. Those assets are: Well #4, which is no longer in  
11 use; Well #12, which is currently used exclusively for the irrigation of the Crosswater Golf  
12 Course, which is owned by SRLP and will continue to be served by that well, common  
13 areas in the Caldera Springs development, and a golf course in Caldera Springs owned  
14 by SRLP that makes use of water supplied to Caldera Springs; certain water rights  
15 connected with Well #12; and certain fiber optic cable.

16 On October 23, 2018, Oregon Water and SRW (together, "the Joint Applicants"),  
17 initiated Docket No. UP 384 by filing a Joint Application for an Order Approving the Sale  
18 of SRW ("Joint Application"). On January 16, 2019, SRW filed an Application for an Order  
19 Approving the Assignment of Assets by SRW in Docket No. UP 391, together with a motion  
20 to consolidate this second application with Docket No. UP 384. The Administrative Law

---

<sup>1</sup> Under the MIPA, Oregon Water also will acquire SRLP's membership interests in Sunriver Environmental, LLC ("SRE"), which is a wastewater utility; however, the Commission does not have jurisdiction over the sale of interests in SRE, and that portion of the transaction is not the subject of the Commission's proceedings.

1 Judge granted the motion to consolidate these proceedings on January 17, 2019. The  
2 transactions proposed in the Consolidated Proceedings herein are referred to as the  
3 "Transactions."

4 **Q. Have the Stipulating Parties conducted discovery in these cases?**

5 A. Yes. Since the Joint Application was filed, the Joint Applicants received and answered 72  
6 Data Requests from Staff and SROA. In addition, SROA received and responded to two  
7 Data Requests received from Staff.

8 **Q. Please describe the process to date in these dockets.**

9 A. On January 17, 2019, Oregon Water and SRW filed direct testimony by Justin Palfreyman  
10 and Thomas O'Shea, respectively. The Commission held a public comment hearing in  
11 Sunriver, Oregon, on February 7, 2019. On February 21, 2019, Staff, CUB, and SROA  
12 filed response testimony by Stephanie Yamada, William Gehrke, and Hugh Palcic,  
13 respectively. The Stipulating Parties held a settlement conference on February 28, 2019,  
14 and a second settlement conference on March 12, 2019. In addition, the Stipulating  
15 Parties held a workshop on March 8, 2019, at which SRW provided detailed information  
16 related to the asset transfer that is the subject of UP 391. As a result of the workshop and  
17 settlement discussions, the Stipulating Parties reached a comprehensive settlement that  
18 the Stipulating Parties agree fully resolves all of the issues in the Consolidated  
19 Proceedings. The Stipulation memorializes the terms of this comprehensive settlement.

20 **Q. Please provide an overview of the issues addressed in the Stipulation.**

21 A. The Stipulation supports the sale of SRW to Oregon Water and the transfer of certain  
22 SRW assets to SRLP, subject to conditions designed to protect SRW customers. These  
23 conditions resolve all of the issues raised by both Applications at issue in these  
24 Consolidated Proceedings. In particular, while Staff and SROA raised issues regarding

1 the customer value associated with the transfer of certain SRW assets to SLRP in their  
2 respective response testimony,<sup>2</sup> all of the Stipulating Parties agree the conditions and  
3 commitments in the Stipulation fully address the value to customers of those transferred  
4 assets. Staff also raised other issues such as a possible right of first refusal or a first offer  
5 right to purchase the ownership interests in SRW claimed by SROA (“ROFR”), the effects  
6 of the transaction on fire protection/suppression, the addition of a manager, impacts of the  
7 loss of the Crosswater golf course as a customer, and issues regarding the allocation of  
8 common costs in its testimony.<sup>3</sup> The Stipulation fully addresses these issues.

9 **Q. Is the purported ROFR initially raised by SROA in its motion to intervene addressed**  
10 **in the Stipulation?**

11 A. Yes. In its Petition for Intervention in UP 384, SROA stated that its interest in the  
12 proceeding included a possible right of first refusal or a first offer right to purchase  
13 the ownership interests in SRW, and Staff noted that this issue could pose  
14 concerns for the Commission with regard to whether the “no-harm” standard could  
15 be satisfied. Staff and SROA conducted discovery regarding the existence of the  
16 purported ROFR. SROA did not address the purported ROFR in its Responsive  
17 Testimony. The Stipulation resolves this issue by specifically stating that SROA  
18 waives any right it may have or have had under any ROFR, releases and  
19 discharges SRW, SRLP and Oregon Water from any claim SROA has made or  
20 could have made under any ROFR, and terminates and extinguishes any ROFR  
21 relating to the ownership interests or assets of SRW that are the subject of the

---

<sup>2</sup> Staff/100, Yamada/16-23; SROA/100, Palcic/3-5.

<sup>3</sup> Staff/100, Yamada/29.

1 Transactions. The Stipulating Parties agree that this resolution of the ROFR issue results  
2 in no harm to SRW, or its customers, including SROA.

### III. CONDITIONS OF SETTLEMENT

3 **Q. Please summarize the additional conditions included in the Stipulation.**

4 A. The conditions in the Stipulation are designed to protect SRW's customers and fall into  
5 four general categories: (a) provisions ensuring rates do not increase for SRW customers  
6 as a result of the sale of SRW to Oregon Water; (b) provisions ensuring SRW maintains  
7 proper corporate separation and accounting practices following the sale to Oregon Water;  
8 (c) provisions ensuring the Commission is able to exercise proper oversight of SRW going  
9 forward; and (d) provisions ensuring customers will not be harmed by the transfer of  
10 certain SRW assets to SRLP. Together, these conditions address all of the issues raised  
11 by the Stipulating Parties and ensure that the Transactions meet the no-harm standard.

#### A. *Stable Costs and Rates*

13 **Q. Please identify the conditions in the Stipulation that are designed to ensure that  
14 SRW's customers' rates do not increase as a result of the Transactions.**

15 A. Conditions 6, 7, 16, 17, and 18 in the Stipulation are designed to ensure SRW's customers'  
16 rates do not increase as a result of the Transactions.

17 **Q. Please describe Condition 6.**

18 A. Condition 6 provides that SRW will not file a general rate case prior to one (1) year after  
19 the closing date of the Transactions, and further that SRW will not file to increase any of  
20 its rates, charges, or fees prior to its first general rate case filing following the transfer of  
21 ownership.

22 **Q. What is the purpose of this condition?**



1 A. This condition was designed to ensure that SRW's customers receive the benefit of any  
2 potential reductions in operating costs that could result from the change in ownership, by  
3 ensuring that sufficient time passes between the closing of the Transactions and the filing  
4 of a rate case to allow such savings to be captured and recorded on SRW's books. In  
5 addition to facilitating transparency, this condition also ensures rates will remain stable for  
6 SRW's customers for approximately two years or more after the closing of the  
7 Transactions (including the one-year stay-out, as well as the typical 9-month suspension  
8 period after a general rate case is filed, before new rates take effect, depending on when  
9 the next general rate case is filed).

10 **Q. Please describe Conditions 7 and 17.**

11 A. Condition 7 provides that SRW and Oregon Water (including all of the entities owned either  
12 directly or indirectly by Northwest Natural Holding Company ("NW Holdings")) will not seek  
13 rate recovery of an acquisition adjustment (or goodwill) for the price paid for Oregon  
14 Water's acquisition of SRW. Condition 17 requires SRW to track and exclude costs related  
15 to the preparation and performance of the Transactions from customer rates.

16 **Q. What is the purpose of these conditions?**

17 A. These conditions ensure that customers will not be charged anything extra in rates as a  
18 result of SRW's change in ownership, thereby helping to hold customers harmless from  
19 the Transactions.

20 **Q. Please describe Condition 16.**

21 A. In Condition 16, Oregon Water commits that SRW will not advocate for a higher cost of  
22 capital than would have prevailed for SRW absent Oregon Water ownership for two (2)  
23 years following Commission approval of the Transactions.

24 **Q. What is the purpose of this condition?**

1 A. Condition 16 ensures that the cost of capital included in SRW's rates will not increase as  
2 a result of the Transactions, thereby protecting customers from harm.

3 **Q. Please describe Condition 18.**

4 A. Condition 18 seeks to cap the costs for administrative services that SRW can include in  
5 customer rates in the next rate case filed after the closing of the Transactions. By way of  
6 context, SRLP currently provides administrative services to SRW through an affiliated  
7 interest agreement, and the amount of these services most recently approved by the  
8 Commission in Docket No. UI 378 (UI 378) was \$254,729 annually. Condition 18 provides  
9 that in the first rate case following Commission approval of the Transactions, SRW will not  
10 include in rates administrative costs of shared services and functions currently provided  
11 by SRLP under the shared services agreement approved in UI 378 that are higher than  
12 \$280,000, for the same or similar services, unless it can demonstrate that the benefits to  
13 customers are greater than or equal to the portion of costs exceeding that amount.

14 **Q. What is the purpose of this condition?**

15 A. The purpose of this condition is to ensure that the cost of administrative services provided  
16 to SRW will not significantly increase under Oregon Water's ownership—unless Oregon  
17 Water can show a clear benefit to SRW's customers. The parties agreed that it was  
18 appropriate to allow for a relatively small increase for administrative services beyond that  
19 number currently included in rates, as well as a soft cap which can be lifted in the event  
20 SRW shows a clear benefit to customers. This condition encourages stable rates and  
21 ensures that SRW's customers will not be harmed. This condition does not pre-determine  
22 or serve as pre-agreement for whether such costs are prudently incurred; such review will  
23 occur in the ratemaking proceeding in which cost recovery is sought.

1 **B. Corporate Separation and Accounting Practices**

2 **Q. Please identify the conditions in the Stipulation that are designed to ensure proper**  
3 **corporate separation and accounting practices.**

4 A. Conditions 1, 2, 10, 11, 12, 13, 14, and 15 in the Stipulation all fall into this category.

5 **Q. Please describe Condition 1.**

6 A. Under Condition 1, Oregon Water commits that SRW will not, at any point in time, be  
7 owned by Northwest Natural Gas Company ("NWN Gas") or any subsidiary of NWN Gas.

8 **Q. What is the purpose of Condition 1?**

9 A. Condition 1 ensures that ownership of SRW will not be transferred to the gas utility or any  
10 subsidiary of the gas utility. This condition ensures there is a clear separation between  
11 water company operations and gas utility operations for entities owned by NW Holdings,  
12 which ensures transparency of intercompany transactions and further ensures there is no  
13 cross-subsidization among SRW and its affiliates.

14 **Q. Please describe Condition 10.**

15 A. Under Condition 10, following the closing of the Transactions, SRW and its parent(s) shall  
16 remain separate legal entities.

17 **Q. What is the purpose of this condition?**

18 A. Much like Condition 1, Condition 10 ensures that SRW and its parent companies will  
19 observe appropriate corporate separations, which is essential to ensuring transparency of  
20 intercompany transactions and helps further ensure there is no improper cross-  
21 subsidization.

22 **Q. Please describe Conditions 13 and 14.**

23 A. Condition 13 provides that SRW shall not issue, secure, or guarantee the debt of Oregon  
24 Water, Northwest Natural Water Company, LLC, NWN Gas, NW Holdings, or any other

1 affiliate of SRW as defined in Oregon Revised Statutes (“ORS”) Section 757.015 without  
2 prior approval of the Commission. Condition 14 provides that SRW shall not make any  
3 short-term loans to any affiliate, except as allowed pursuant to the Commission’s affiliated  
4 interest statutes and rules.

5 **Q. What is the purpose of these conditions?**

6 A. Both of these conditions ensure that SRW’s customers do not assume any financial  
7 liabilities intended to benefit SRW’s affiliated companies, unless explicitly approved by the  
8 Commission. To be clear, Oregon law prohibits SRW from taking any of these actions  
9 without prior Commission approval.<sup>4</sup> The Stipulating Parties agree that it is appropriate to  
10 include these conditions in order to highlight the importance of these existing  
11 requirements.

12 **Q. Please describe Conditions 2, 11, 12, and 15.**

13 A. Condition 2 requires SRW to provide the Commission access to all books of account as  
14 well as all documents, data, and records that pertain to the transfer of properties or to  
15 transactions between SRW and Oregon Water or any other affiliate. Condition 11 provides  
16 that SRW will maintain separate financial statements on a stand-alone basis, though  
17 SRW’s financials may be included in the consolidated financial statements of its parent for  
18 financial reporting purposes. Condition 12 provides that SRW’s books and records shall  
19 be available in accordance with the applicable uniform system of accounts, or, as  
20 appropriate, generally accepted accounting principles, noting that SRW will utilize a  
21 different system of accounts than does its gas affiliate, NWN Gas. Finally, Condition 15  
22 requires SRW to maintain its assets and liabilities, and books and records relating thereto,

---

<sup>4</sup> Oregon Revised Statutes (ORS) § 757.495(5).

1 in such a manner that ascertaining or identifying its individual assets and liabilities as  
2 separate and distinct from those of its parent and affiliates will not entail significant costs  
3 or difficulty.

4 **Q. What is the purpose of these conditions?**

5 A. These provisions ensure SRW will follow proper accounting principles and procedures for  
6 maintaining its books, records, and financial statements in a manner that facilitates  
7 transparency and oversight and promotes proper corporate separation with parent  
8 companies and affiliates. These practices ensure the Commission has the ability to  
9 regulate SRW and its affiliates effectively to ensure that customers are not harmed.

10 ***C. Additional Safeguards for Commission Oversight***

11 **Q. Please identify the conditions in the Stipulation that you have categorized as**  
12 **“Additional Safeguards for Commission Oversight”.**

13 A. Conditions 3, 4, 5, 8, and 9 in the Stipulation all fall into this category.

14 **Q. Please describe Condition 3.**

15 A. Condition 3 requires SRW to notify the Commission if substantive changes are made to  
16 the MIPA, including any material changes in price. The condition further requires that any  
17 substantive changes to the MIPA terms that alter the intent or extent of the MIPA from  
18 those approved by the Commission must be submitted for Commission approval in an  
19 application for a supplemental order (or other appropriate form) in the Consolidated  
20 Proceedings.

21 **Q. What is the purpose of this condition?**

22 A. This condition recognizes that, after approval of the Transactions, it is possible the Joint  
23 Applicants would wish to make material alterations to the price, or, conceivably, other  
24 significant terms of the MIPA. Thus, Condition 3 ensures the Commission is able to review

1 any substantive changes to the agreement currently being recommended for approval by  
2 the Stipulating Parties and allows the Commission the opportunity to approve or reject  
3 such modifications, thereby facilitating Commission oversight.

4 **Q. Please describe Condition 4.**

5 A. Condition 4 requires SRW to provide notice to the Commission within ten (10) days of the  
6 closing of the Transactions.

7 **Q. What is the purpose of this condition?**

8 A. This condition ensures the Commission, Staff, and other parties are notified when the  
9 Transactions subject to review in these Consolidated Proceedings are complete.

10 **Q. Please describe Condition 5.**

11 A. Condition 5 provides that the Commission reserves the right to review for reasonableness  
12 all financial aspects of the Transactions in any rate proceeding.

13 **Q. What is the purpose of this condition?**

14 A. This condition clarifies that the Commission is not performing substantive review of all of  
15 the financial aspects the Transactions, which instead are properly reviewed in a rate  
16 proceeding.

17 **Q. Please describe Condition 8.**

18 A. Condition 8 provides that Commission approval of the Transactions does not constitute a  
19 prudence finding with respect to SRW investments not yet included in rates.

20 **Q. What is the purpose of this condition?**

21 A. Condition 8 recognizes that since the time of SRW's last rate case, SRW has made  
22 significant investments in capital projects that have not yet been included in rates. This  
23 condition clarifies that the prudence of those investments has not been reviewed in these

1 Consolidated Proceedings and, therefore, that those investments are subject to future  
2 prudence review, as appropriate, in a future rate proceeding.

3 **Q. Please describe Condition 9.**

4 A. Condition 9 requires SRW to file affiliated interest applications pursuant to ORS Section  
5 757.495 and Oregon Administrative Rules (“OAR”) 860-036-2210 within ninety (90) days  
6 of the closing of the Transactions for any transactions involving affiliates.

7 **Q. What is the purpose of this condition?**

8 A. This condition ensures compliance with applicable law and facilitates transparency  
9 regarding any contractual relationships SRW may have with affiliates within the meaning  
10 of ORS Section 757.495.

11 ***D. Asset Transfer Protections***

12 **Q. Please identify the Conditions in the Stipulation agreed to by the Stipulating Parties  
13 specific to SRW's transfer of assets to SRLP.**

14 A. The conditions in the Stipulation specific to the transfer of assets from SRW to SRLP are  
15 Conditions 19, 20, 21, 22, and 23. Conditions 21 and 22 reflect the Stipulating Parties'  
16 agreement that SRW's customers should receive some level of consideration for the value  
17 of Well #4 and Well #12—both of which are being transferred to SRLP. In addition,  
18 Condition 23 is intended to address a concern raised by SROA that the transfer of certain  
19 water rights from SRW to SRLP could potentially cause harm to SRW customers.

20 **Q. Please describe Condition 19.**

21 A. In its next general rate proceeding, SRW will demonstrate that all assets transferred to  
22 SRLP as described in the UP 391 Application have been removed from customer rates.

23 **Q. What is the purpose of this condition?**

1 A. This condition facilitates transparency and helps ensure that customers are held harmless  
2 from the transfer of assets to SRLP by excluding those assets from SRW's revenue  
3 requirement.

4 **Q. Please describe Condition 20.**

5 A. Condition 20 refers to the transfer to SRLP of certain fiber strands that are currently  
6 providing network services to Sunriver Resort. In his Direct Testimony in this case,  
7 Oregon Water witness Justin Palfreyman explained that, after the Transactions close,  
8 Oregon Water will replace that fiber with a new, standalone Information Technology ("IT")  
9 network to serve SRW customers. Under Condition 20, SRW commits that it will not  
10 include the start-up costs of the contemplated stand-alone IT network in rates in any  
11 subsequent rate case following Commission approval of the Transactions.

12 **Q. What is the purpose of this condition?**

13 A. This condition ensures that customers are held harmless from the transfer of portions of  
14 the fiber optic cable and conduit system utilized to provide network services to the Resort,  
15 which is accomplished by ensuring that any replacement technology costs for that purpose  
16 are not included in SRW rates. To be clear, as SRW has explained, the fiber being  
17 transferred to SRLP is fully depreciated and in poor condition. In contrast, the  
18 contemplated standalone IT network will be in top operating condition and will further  
19 benefit SRW's customers by providing superior safety, cybersecurity, and system  
20 reliability.<sup>5</sup> For these reasons, Condition 20 goes beyond ensuring that SRW's customers  
21 are not harmed by the transfer to SRLP and actually provides additional benefits.

22 **Q. Please describe Condition 21.**

---

<sup>5</sup> Oregon Water/100, Palfreyman/10.



1 A. Condition 21 is intended to compensate SRW's customers for the value of Well #4, which  
2 is being transferred from SRW to SRLP, by allocating the value of the well among SRW's  
3 customer groups and SRW based on the historical usage of the well. In general, Condition  
4 21 provides that SRW's customers (including SRLP) will receive a one-time bill credit  
5 reflecting the net value of Well #4, based on the historical utilization. Specifically, the  
6 Stipulating Parties agree that the net value of Well #4 is \$64,350. Of this amount, domestic  
7 customers will be allocated \$40,837 as a one-time bill credit and the remaining \$23,513  
8 will be allocated to SRW. The Stipulating Parties agree that SRW will calculate the one-  
9 time bill credit by apportioning the \$40,837 to domestic rate schedules on the basis of  
10 volumes using calendar year 2018 volumes. SRW then will issue the one-time bill credit  
11 to each customer on an equal amount per customer basis within each rate schedule. SRW  
12 will issue the one-time bill credit within sixty (60) days of the closing of the Transactions.

13 **Q. What is the purpose of this condition?**

14 A. The purpose of this condition is to ensure that SRW customers receive fair compensation  
15 for the value of the asset being transferred to SRLP. SRW's customers have contributed  
16 to this value through revenue requirement for depreciation and maintenance expenses.  
17 Therefore, while Well #4 is no longer used or useful to SRW's customers, they are  
18 nevertheless entitled to receive fair compensation for the value of this property.

19 **Q. Please describe Condition 22.**

20 A. Condition 22 is intended to compensate SRW's customers for the value of Well #12, which  
21 is being transferred from SRW to SRLP, by allocating the value of the well among SRW's  
22 customer groups and SRW based on the historical usage of the well. In general, Condition  
23 22 provides that SRW's customers (including SRLP) will receive a one-time bill credit

1 reflecting the net value of Well #12, based on historical utilization. Specifically, the  
2 Stipulating Parties agree that the net value of Well #12 is \$95,716.

3 Of this amount, the Stipulating Parties agree that domestic customers will be  
4 allocated \$29,451 as a one-time bill credit, and that customers on the Golf Course rate  
5 schedule will be allocated \$58,902. The remaining \$7,363 is allocated to SRW. The  
6 Stipulating Parties agree that SRW will calculate the bill credit for domestic customers by  
7 apportioning the \$29,451 to domestic rate schedules on the basis of volumes using  
8 calendar year 2018 volumes. SRW then will issue the one-time bill credit to each such  
9 customer on an equal amount per customer basis within each rate schedule.

10 The Stipulating Parties agree that SRW will calculate the bill credit for the two  
11 customers on the Golf Course rate schedule (SRLP and Caldera Springs Owners  
12 Association ("CSOA")) by apportioning the \$58,902 to those customers on the basis of  
13 volumes used by each customer in calendar year 2018. The amount due to CSOA will be  
14 made as a one-time bill credit. Because SRLP will no longer be a Golf Course irrigation  
15 customer following closing of the Transactions, SRW will pay the amount due to SRLP by  
16 check.

17 SRW will issue the one-time bill credits and check within sixty (60) days of the  
18 closing of the Transactions.

19 **Q. What is the purpose of this condition?**

20 A. This condition similarly ensures that SRW's customers are held harmless from the transfer  
21 of Well #12 by providing a one-time bill credit or check, as applicable, for proportionate  
22 value of the well. Customers have contributed to this value through revenue requirement  
23 for depreciation and maintenance expenses and are therefore entitled to fair  
24 compensation for value of this property.

1 **Q. Please describe Condition 23.**

2 A. Condition 23 relates to the transfer from SRW to SRLP of Water Right Certificates 85484  
3 and 85485, which currently authorize the pumping of water from Well #12 to irrigate the  
4 Crosswater Golf Course, owned by SRLP ("Water Rights"). During discussions among  
5 the parties, SROA and Staff voiced concerns that customers could potentially be  
6 disadvantaged by the transfer of the Water Rights, if, at some time in the future, the Water  
7 Rights could be used to avoid the need to complete a mitigation project or obtain additional  
8 mitigation credits in order to develop additional water supply to serve SRW's current  
9 customers. The Joint Applicants believe that the concern identified by SROA and Staff is  
10 not well-founded. The Joint Applicants also provided information during the workshop that  
11 demonstrated the adequacy of water supply to meet future anticipated load at full build-  
12 out. This additional information helped to address SROA's and Staff's concerns about the  
13 need to retain these water rights for potential future mitigation credits. To address Staff's  
14 and SROA's concerns regarding the potential need to convert these water rights to  
15 mitigation credits at some future time, the Stipulating Parties have agreed that if, during  
16 the ten (10)-year period following the closing of the Transactions, SRW is required to  
17 complete a mitigation project or to obtain additional mitigation credits (beyond the 2.1 acre-  
18 feet of permanent mitigation credits that SRW has already acquired) to serve utility  
19 customers in its current service territory (plus the 614-acre Caldera Springs annexation)  
20 in order to use water permitted by Permit G-17882 or any other permit or right, SRW will  
21 bear the cost of that mitigation project or those mitigation credits up to the equivalent of  
22 90 credits. The condition specifies that "bearing the cost" means that SRW will not include  
23 in its revenue requirement any expense (including depreciation) associated with such a  
24 mitigation project or mitigation credits, and SRW will not include its investment in any such

1 mitigation project or mitigation credits in rate base. The condition also states that, for the  
2 avoidance of doubt, SRW's investment in or acquisition of any storage facility will not be  
3 considered a mitigation project or related to mitigation credits for the purpose of Condition  
4 23; provided that the investment in or acquisition of such storage facility does not require  
5 SRW to complete a mitigation project or obtain mitigation credits (beyond the 2.1 acre-  
6 feet of permanent mitigation credits that SRW has already acquired) pursuant to  
7 OAR chapter 690, divisions 505 or 521 respectively.

8 **Q. What is the purpose of this condition?**

9 A. Condition 23 addresses and adequately mitigates the concern identified by SROA and  
10 Staff by ensuring that SRW will not include in rates the costs of any such mitigation project  
11 or mitigation credits as could reasonably be incurred under the hypothetical  
12 circumstances, which gave rise to SROA's and Staff's concerns. This condition is also  
13 drafted in recognition of the fact that SRW currently contemplates investing in or acquiring  
14 certain storage facilities, and clarifies that such activity will not be considered a mitigation  
15 project or related to mitigation credits—unless the investment in or acquisition of such  
16 storage facility requires SRW to complete a mitigation project or obtain mitigation credits  
17 (beyond the 2.1 acre feet of permanent mitigation credits that SRW has already acquired).  
18 In this way, SRW's customers are held harmless from any reasonably foreseeable  
19 potential impact associated with the transfer of Well #12 and the associated water rights  
20 to SRLP.

**IV. REASONABLENESS OF THE STIPULATION**

21 **Q. What is the basis for the Stipulation?**

22 A. The Stipulation is a compromise based on the record in the Consolidated Proceedings,  
23 which includes the Joint Application for an Order Approving the Sale of SRW filed by

1 Oregon Water and SRW in Docket No. UP 384, the Application for an Order Approving  
2 the Assignment of Assets by SRW filed by SRW in Docket No. UP 391 and consolidated  
3 with Docket No. UP 384, direct testimony filed by Oregon Water and SRW, respectively,  
4 response testimony filed by Staff, CUB, and SROA, and data responses by the Joint  
5 Applicants and SROA. The Stipulating Parties held settlement conferences on February  
6 28, 2019 and March 12, 2019, and a workshop on March 8, 2019. Over the course of  
7 these discussions, the Stipulating Parties resolved their differences regarding the issues  
8 addressed in the Stipulation through dialogue, negotiations, and compromise to reach a  
9 fair result.

10 **Q. What is your recommendation to the Commission regarding the Stipulation?**

11 A. The Stipulating Parties recommend and request that the Commission approve the  
12 Stipulation in its entirety.

13 **Q. Please explain why the Stipulating Parties believe the Commission should approve  
14 the Stipulation.**

15 A. The Stipulating Parties have carefully reviewed the direct testimony of Oregon Water and  
16 SRW, and the response testimony filed by Staff, CUB, and SROA, as well as responses  
17 to data requests by Oregon Water, SRW, and SROA. The Stipulating Parties have  
18 thoroughly analyzed the issues addressed in the Stipulation during multiple days of  
19 settlement conferences and workshops. The Stipulating Parties believe that the  
20 agreements in the Stipulation provide a fair and reasonable resolution of the issues raised  
21 by Staff and SROA, and that the sale of SRW to Oregon Water and transfer of certain  
22 SRW assets to SLRP, subject to the conditions in the Stipulation, satisfy the “no harm”  
23 standard and comply with the public interest.

24 **Q. Please elaborate.**

1 A. The Stipulation represents a reasonable compromise for many reasons, including the  
2 following: (1) Oregon Water has the financial and managerial expertise to own and  
3 oversee SRW operations; (2) Oregon Water's purchase of SRW and the transfer of certain  
4 SRW assets to SLRP will not harm customers, affect customer rates or result in any  
5 disruption to SRW customers; (3) costs relating to the preparation and performance of the  
6 sale of SRW will not affect customers; and (4) the settlement of the issues presented in  
7 the Stipulation eliminates the need for additional litigation of these issues in the  
8 Consolidated Proceedings among the Stipulating Parties.

9 **Q. Does this conclude your testimony?**

10 A. Yes.